

# First evaluation report to the Federal Government pursuant to section 9(4) of the Minimum Wage Act (MiLoG) on the effects of the statutory minimum wage

## Summary in English<sup>1</sup>

Since 1 January 2015, a statutory minimum wage of €8.50 (gross) per hour has been in force in Germany. Decisions on adjustments to the minimum wage are made by the Minimum Wage Commission. The Commission has set the statutory minimum wage at €8.84 (gross) per hour from 1 January 2017. In addition to decisions regarding adjustments to the minimum wage, the Minimum Wage Commission is also responsible for preparing a report on how the minimum wage affects worker protection, competitive conditions and employment with regard to specific industries and regions, as well as productivity.

### *Introduction*

From a theoretical perspective, the effect of minimum wages is not clear-cut. Depending on the underlying model or, rather, the assumptions the model makes, minimum wages can have negative, positive or neutral effects. Given this theoretical ambiguity, the question as to what the effects of a minimum wage are can therefore only be answered empirically. Existing (international) research paints a mixed picture in this regard. Negative, positive and neutral effects are observed. The international results, as well as the results of the evaluation of Germany's industry-specific minimum wages, have only very limited applicability to the newly introduced statutory minimum wage in Germany.

Time constraints and the restrictions in data availability make it virtually impossible for the first report presented by the Minimum Wage Commission to provide information on specific interdependencies and causalities. Rather, the report uses mainly empirical findings to take stock of the current situation based on descriptive time-series analyses covering the time before and after the minimum wage's introduction. For the first report, the Minimum Wage Commission based its work on a wide range of data sources, including in particular data from the Federal Employment Agency, the Structure of Earnings Survey 2014 (VSE 2014), the Earnings Survey 2015 (VE 2015) and the Quarterly Earnings Survey (VVE) by the Federal Statistical Office, and on years 2014 and 2015 of the IAB Establishment Panel and German Socio-Economic Panel (SOEP).

### *The minimum wage and worker protection*

Prior to the introduction of the statutory minimum wage, around four million employment relationships carried an hourly wage of less than €8.50 (gross). An above-average prevalence of wages below €8.50 was observed among employees in former East Germany, employees in marginal part-time work ("mini jobs"), individuals without vocational training, workers in smaller businesses, and women. In April 2015, a few months after the statutory minimum wage entered into force, this number had fallen to between around 1.0 and 1.4 million employment relationships – depending on the definition of the hourly wage. The introduction of the minimum wage was associated with significant increases in earnings in industries and groups of people with a particularly high prevalence of wages below €8.50 an hour.

There are also indications that, in some cases, the minimum wage led to increases in wages that were already above the minimum wage (spillover effects). At the same time, a highly populated wage bracket has formed at, or just above, the level of the minimum wage. This concentration of hourly wages at the statutory minimum wage boundary is also referred to as a compression effect.

Employees and employers have increasingly adapted to the minimum wage. The Minimum Wage Hotline set up by the Federal Ministry of Labour and Social Affairs, which registered up to 4,000 calls a week at the start of 2015 now receives only around 400 calls a week. The most frequent inquiries from callers

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<sup>1</sup> This summary was prepared by the Coordination and Information Office of the Minimum Wage Commission.

concern the rules governing internships, the record-keeping obligations and the personal scope of application of the Minimum Wage Act.

Implementation of the statutory minimum wage is monitored by the customs authorities, which carried out around 43,600 employer inspections in 2015 (this figure was around 63,000 in 2014). Although the customs authorities identified various approaches to bypassing the minimum wage, the data does not allow a quantified estimate of the extent of such practices.

The number of so-called “topper uppers” (“Aufstocker”), i.e. workers who receive unemployment benefit II to top up income from employment to subsistence levels, has fallen slightly more strongly since the introduction of the minimum wage than in the preceding years. The absence of a more significant reduction is not least attributed to the fact that the supplementary claim for unemployment benefit II results not only from low hourly wages but primarily from the often relatively few working hours per week. In addition to this, benefit recipients often live in households comprising several individuals, meaning that slight wage increases have only a limited effect on the household’s need for assistance. Through its influence on pay development, the minimum wage also affects the social security systems and in particular the revaluation of pensions, which is linked to wage development, among other factors.

#### *The minimum wage and employment*

Especially in comparison to European neighbours, economic development in Germany is on the whole characterised by very robust business activity and positive development of the labour market. In this respect, the introduction of the minimum wage took place in a generally positive economic environment. Overall employment has continued to grow. This is attributed above all to the further increase in regular employment (subject to social security contributions). On the other hand, a decrease was observed in exclusively marginal part-time work at the start of 2015. The decrease amounted to around 100,000 people year-on-year. Around half of these people switched to a regular employment relationship, while the other half withdrew from the labour market and a small proportion registered as unemployed.

Regular employment increased above all in industries where there was a high proportion of workers earning less than €8.50 an hour before the minimum wage was introduced. In both former West and former East Germany, these industries witnessed a greater rise in employment levels at the turn of the year 2014/2015 than the industries that were less affected by the introduction of the minimum wage. Part of this greater dynamism in employment levels can be explained by the conversion of marginal part-time work into regular employment in the industries strongly affected by the minimum wage. However, even after this conversion is taken into account, the industries strongly affected by the minimum wage still exhibited greater employment growth than those weakly affected.

Unemployment in general continued to fall in 2015. The same is true of the number of individuals entering unemployment from industries strongly affected by the introduction of the statutory minimum wage. Here, the year 2015 saw no increase relative to previous years. The trend in unemployment for semi-skilled and unskilled workers (assistants), also compared to skilled workers, underwent a slightly less positive development than in the 2013/2014 year-on-year comparison. It is unclear, however, whether this bears a causal relationship to the introduction of the minimum wage.

Labour demand, measured as the number of registered vacancies, also continued to experience positive development. In industries strongly affected by the minimum wage in former East Germany, a considerably smaller increase was identified relative to the overall trend in vacancies in that region. Initial results suggest that employers’ requirement levels for candidates have increased for minimum wage jobs.

During the reporting period (to mid 2016), immigration by refugees did not have an appreciable effect on the labour market or, in particular, on labour supply. The newly arrived refugees and asylum seekers were not yet active in the labour market in 2015 and not appreciably active in the first half of 2016.

In terms of average weekly working hours, a decrease can be observed for those individuals who earned

less than €8.50 an hour before the statutory minimum wage was introduced. As yet, however, no differentiated analysis has been carried out with regard to either the effects on the situation of affected workers or the volume of work available in the economy as a whole.

There are also initial indications of the minimum wage's effects on the number, length and remuneration of internships. Surveys of businesses point to a drop in the number of internships they offer, and the same is true of the length. Remuneration of internships rose, on the other hand. Based on the available data from the Vocational Training Report, the minimum wage had no effect on apprenticeships.

### *The minimum wage and competition*

The introduction of the statutory minimum wage has not had a discernible effect on macroeconomic competition indicators, such as labour costs, unit labour costs, productivity and profits. A major factor in this is that the minimum wage had only a limited influence on the wage bill for the economy as a whole. The minimum wage is estimated to have brought about a 0.5% increase in the wage bill for 2015. A somewhat different picture emerges for industries and companies that were particularly affected by the introduction of the statutory minimum wage. The industries with a particularly high proportion of workers earning less than €8.50 an hour before the introduction of the statutory minimum wage include the taxi industry, gambling and betting activities, accommodation and food service activities, postal and courier activities, private security activities, call centres and retail.

Consumer prices saw above-average increases in some of the industries that were particularly affected by the statutory minimum wage without this having a discernible effect on the overall price index. The areas that experienced above-average rises in consumer prices include, in particular, taxi journeys, newspapers and magazines, food service activities and accommodation.

In the short term, no difference was observed in business dynamism or intensity of competition either in the economy as a whole or in the industries particularly affected by the statutory minimum wage. There was no discernible rise in market withdrawals in the form of surrenders of business licences or insolvencies, nor was there a discernible increase in business registrations. However, changes in the competitive environment can sometimes only be observed in the medium to long term.

Various surveys at the company or business level confirm a variety of adaptation measures that have been adopted. Affected companies say they have very often reduced working hours or intensified work, as well as increasing sales prices. Only a small number of affected companies state that they have responded to the introduction of the minimum wage through other measures, such as the reduction of investments, the greater use of flexible forms of employment and the modification of further-training activities.

### *Research prospects*

The underlying time constraints led the first report to confine itself mainly to descriptive analysis. In the second and third reports, to follow in 2018 and 2020, it will then be possible to undertake a more accurate empirical analysis and evaluation of the effects of the minimum wage based on a broader set of data. In its current report, the Minimum Wage Commission outlined associated topics and questions that, in their view, will arise in the field of minimum wage research over the coming years in Germany.

In this context, the Commission considers the further improvement of data availability and data quality to be important. Firstly, this includes carrying out an Earnings Survey 2017 similar to the Earnings Survey 2015 so that the Minimum Wage Commission has current statistical data on wages and working hours at its disposal for its second decision in June 2018. Secondly, the Minimum Wage Commission recommends linking the employment statistics of the Federal Employment Agency, or rather the Integrated Employment Biographies (IEB) based on them, with the Structure of Earnings Survey (VSE) as an important measure aimed at improving the available data for scientific evaluation of the minimum wage. This would make it possible to calculate hourly wages as precisely as possible, including in the Integrated Employment Biographies (IEB). This is a key prerequisite for evaluating the (hourly) minimum wage.